



National Audit Office

NEWS RELEASE

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Report by the Comptroller and Auditor General

Investigation: 2017 auction for low-carbon electricity generation contracts

Rule changes made by the Department for Business, Energy and Industrial Strategy (the Department) on its 2017 auction for contracts to support new, low-carbon electricity generation will increase costs for energy users by around £100m a year, according to an investigation carried out by the National Audit Office (NAO).

In September 2017, the Department awarded 11 Contracts for Difference through an auction to low-carbon electricity generation projects. Contracts for Difference fix the price that generators receive for their electricity for a set period, with energy users paying a top-up if the market price falls below this amount.

In April 2015, the Department changed the rules on how a capacity cap would apply in future auctions. This change meant smaller, more expensive projects could be awarded contracts ahead of projects generating more electricity but at a cheaper price per unit. The Department subsequently decided to cap the amount of generating capacity that projects using “fuelled technologies” could be awarded in the September 2017 auction at 150MW, meaning the new rule would apply.

The NAO found that the contracts awarded in the 2017 auction will cost energy users around £1.5 billion extra over the contracts’ 15-year life, for only a small amount of additional capacity, compared with what would have happened if the Department had not changed the rules on how a capacity cap would apply.

The Department did not highlight the change to its programme management board or test whether it was likely to lead to unintended consequences. In some situations, the design change could have produced better value for money for consumers, but the Department did not assess how likely these were to occur in practice.

Despite the additional costs, the contracts awarded in the 2017 auction were at lower prices than the government had expected, with the costs for offshore wind farms having fallen significantly. The auction also secured more generating capacity than the government had expected. National Grid forecasts that the cost to energy users of top-up payments for the winning projects will be less than the annual budget cap the Department had set of £290 million per year.

The Department awarded 11 contracts to projects capable of providing electricity to around 3.6 million homes (3.3 GW of capacity). The majority comes from three offshore wind

projects (3.2 GW). The remaining eight contracts were awarded to smaller “fuelled-technology” projects.

Further information about the NAO’s investigation is available in the report:

<https://www.nao.org.uk/report/the-2017-auction-for-low-carbon-electricity-generation-contracts>

Notes for editors

1. The NAO conducts investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work. This investigation focuses on the 2017 Contracts for Difference auction. It looks at how the Department designed the auction, including the changes it made to the rules related to the capacity cap, and the impact these changes had. It does not assess the overall value for money of the auction process.
2. Contracts for Difference are designed to encourage investment in low-carbon electricity generation. They fix the price that generators receive for their electricity for a set period, typically 15 years. The fixed price in the contract is known as the “strike price”. Energy users pay top-ups if the prevailing market price is below the strike price. Since 2012, the government has awarded 47 CfDs to projects that use technologies such as wind, solar and nuclear power.
3. Projects make bids into Contracts for Difference auctions on the understanding that those bids will be kept confidential. The NAO’s report aims to strike a balance between protecting commercially confidential bid information with making clear the potential additional costs to consumers as a result of the Department’s design change. It therefore includes rounded, total cost figures, and omits more detailed information that could allow readers to infer more information on specific bids than is necessary.
4. The Department mainly awards the contracts through auctions to create competition between projects, and reduce the costs to energy users. Under this format, projects using eligible technologies submit sealed bids and are awarded CfDs on a “pay as clear” basis. The project with the lowest strike price is awarded a contract first, and each subsequent project wins a contract if its expected cost, when added to the cost of the previous winning projects, comes below an overall budget cap. Once the budget cap is breached, the auction stops. The most recent CfD auction took place in September 2017.
5. “Fuelled technology” projects are biomass with combined heat and power, and advanced conversion technology (ACT) projects, which use waste to produce a gas that can be used for a variety of purposes including the generation of electricity.
6. Press notices and reports are available from the date of publication on the [NAO website](#). Hard copies can be obtained by using the relevant links on our website.
7. The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund, nationally and locally, have used their resources efficiently, effectively, and with economy. The C&AG does this through a range of outputs including value for money reports on matters of public interest; investigations to establish the underlying facts in circumstances where concerns have been raised by others or observed through our wider work; landscape reviews to aid transparency and good practice guides. Our work ensures that those responsible for the use of public money are held to account and helps government to improve public services, leading to audited savings of £734 million in 2016.

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